

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

WESTERN MASSACHUSETTS ELECTRIC COMPANY  
DOCKET NO. D.T.E. 97-120  
ELECTRIC RESTRUCTURING PLAN

---

TESTIMONY OF  
JOHN H. FORSGREN  
ON BEHALF OF  
WESTERN MASSACHUSETTS ELECTRIC COMPANY

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SEPTEMBER 4, 1998

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1

2 **INTRODUCTION**

3

4 Q. Please state your name and business address.

5 A. John H. Forsgren, 107 Selden Street, Berlin, Connecticut 06037.

6

7 Q. Please state your position with Western Massachusetts Electric Company.

8 A. I am Executive Vice President and Chief Financial Officer of Northeast Utilities

9 ("NU") and its operating companies, including Western Massachusetts Electric

10 Company ("WMECO").

11

12 Q. Please summarize your professional and educational background.

13 A. Please see Exhibit JHF-1.

14

15

16 **PURPOSE OF TESTIMONY**

1 Q. Please describe the purpose of your testimony.

2 A. On December 31, 1997, WMECO filed for approval with the Department of  
3 Telecommunications and Energy its electric restructuring plan ("Initial Plan"). This  
4 plan set out the process by which the Company would initiate rate reductions,  
5 customer choice and other electric restructuring measures for its customers. On  
6 May 15, 1998, WMECO amended its restructuring plan and also subsequently  
7 provided various updates, corrections or revisions. The plan, as amended, is  
8 referred to as the "Revised Plan", and the Company is presenting it in a separate  
9 document coincident with this pre-filed testimony in order to facilitate its review.  
10 The purpose of my testimony is to provide an overview of the Company's Revised  
11 Plan, to describe the Company's financial condition as it related to the Revised  
12 Plan, to provide an update on WMECO's auction process, and to introduce the  
13 other witnesses.

14  
15  
16 Q. Please provide an overview of the Company's filing.

17 A. On December 31, 1997, WMECO filed its Initial Plan, as required by the  
18 Massachusetts Electricity Restructuring Act (the "Act"), to cover eight basic  
19 elements. These were:

- 20 (1) A ten percent rate reduction for retail customers.
- 21 (2) Customer choice of energy supplier for all customers by March 1, 1998.
- 22 (3) Standard Service for those customers not choosing an independent energy  
23 supplier.
- 24 (4) Recovery of transition costs.
- 25 (5) Mitigation of transition costs.
- 26 (6) Universal service.
- 27 (7) Energy conservation and demand-side management.
- 28 (8) Employee and Community Impact.

1  
2 Q. You indicate that WMECO's Plan has been revised. What are the most significant  
3 changes that have been made and incorporated in the Revised Plan?

4 A. There have been a number of developments which led WMECO to revise or update its  
5 original filing. As the implementation of restructuring has unfolded, the Company has  
6 modified its Initial Plan to eliminate practices which proved to be problematic in other  
7 utilities' programs and to take advantage of synergies made available with The Connecticut  
8 Light and Power Company ("CL&P") as a result of recent passage of restructuring  
9 legislation in Connecticut. Primary among these changes have been the following:

10 (a) Splitting the divestiture of its fossil/hydro generation into two parts. The initial  
11 divestiture includes West Springfield Station and all other fossil/hydro facilities not  
12 related to the Northfield Mountain Pumped Storage facility. This auction is underway.  
13 The second phase, timed to coincide with the divestiture of jointly-owned units by The  
14 Connecticut Light & Power Company ("CL&P") in 1999, an affiliate of WMECO,  
15 would be the sale of the Northfield Mountain Pumped Storage facility and related  
16 facilities.

17 (b) The commitment to divest WMECO's ownership percentage of its nuclear assets no  
18 later than December 31, 2003.

19 (c) Provision to customers of a further rate reduction effective on July 1, 1998. This  
20 reduction was approved on July 2, 1998 and tariffs reflecting the decrease are included  
21 as exhibits to the Revised Plan.

22 (a) Removal of the "cap" on the price at which wholesale standard offer service can  
23 be supplied. Suppliers will be able to bid without a maximum price constraint  
24 to supply this service.

1 In addition, on July 24, 1998, NU announced its decision to retire Millstone 1. The  
2 impacts of this decision have also been included in WMECO's Revised Plan.

3  
4 **FINANCIAL CONDITION OF COMPANY**

5 Q. Describe WMECO's relationship to NU.

6 A. NU is the parent company of the Northeast Utilities system (the "System"). The  
7 System furnishes retail electric service in western Massachusetts, Connecticut and  
8 New Hampshire through four of NU's wholly-owned subsidiaries: WMECO,  
9 CL&P, Public Service Company of New Hampshire, and Holyoke Water Power.

10  
11 Q. What is the current financial condition of NU?

12 A. Over the 12 months ended June 30, 1998, NU lost \$95.5 million, or 73 cents a  
13 share, compared with a restated loss of \$112.5 million, or 87 cents a share, over the  
14 12 months ended June 30, 1997. NU reported second-quarter earnings in 1998 of  
15 \$6.3 million, or 5 cents a share, compared with a restated loss of \$47.0 million, or  
16 37 cents a share, in the second quarter of 1997. For the first six months of 1998,  
17 NU lost \$11.7 million, or 9 cents a share, compared with a restated loss of \$46.1  
18 million, or 36 cents a share, in the first half of 1997. As reported in May 1998, NU  
19 restated its 1996 and 1997 results to comply with a request from the Securities and  
20 Exchange Commission concerning the timing of reflecting certain nuclear recovery  
21 costs in the Company's financial reports.

22  
23 Q. What has been the financial impacts on WMECO's return on equity over the past  
24 two years?

1 A. In 1996, the Company's return on equity was a negative .36%. In 1997, the return  
2 was lower, a negative 11.39%. Neither of these lower returns reflect the effects of  
3 the required 10% rate reduction required under the Act.

4  
5  
6 Q. Have the rating services changed their outlook on the Company in recent months?

7 A. Yes.

8  
9 Q. Please explain.

10 A. WMECO's securities are still below investment grade. However, on July 21, 1998,  
11 Standard and Poor's took NU and its subsidiaries off CreditWatch for the first time  
12 in 27 months. Also, Moody's upgraded WMECO on July 22, 1998. Moody's  
13 stated asset divestiture and securitization could "add significant upside potential for  
14 ratings over the longer term."

15  
16 Q. What are the keys to maintaining the financial viability of the Company?

17 A. In order for the Company to maintain its financial viability, it must: achieve full  
18 recovery of the Company's standable costs; successfully implement securitization  
19 as soon as possible; successfully auction its generating plants; and successfully  
20 restart Millstone 2.

21  
22 Q. What is the role of securitization in the Company's financial future?

23 A. The securitization of stranded costs through the issuance of rate reduction bonds is  
24 an emerging and important element of electric utility restructuring plans.

1           Securitization is an available financing tool, which when properly applied, provides  
2           benefits both for customers and electric companies. This financial tool can support  
3           utility restructuring, assist in the fulfillment of past obligations to investors, and  
4           importantly, permit the Company to lower rates (which includes the additional 5%  
5           rate reduction that is due in September 1999) by reducing costs. For WMECO,  
6           securitization represents the most effective tool available for mitigating the cost of  
7           recovering its transition costs.

8  
9  
10       Q.       How much of its transition costs does the Company plan to securitize?

11       A.       Approximately \$500 million which includes: \$323 million for 90% of the net plant  
12           balances for Millstone 2 and 3; \$36 million for regulatory assets; \$84 million for  
13           regulatory asset - Millstone 1 shutdown; \$31 million for financing costs; and \$16  
14           million for Standard Service deferrals and the 2.4% rate reduction deferral that was  
15           effective July 1, 1998.

16  
17       Q.       How does the Company plan on utilizing the proceeds from securitization?

18       A.       It is anticipated at this time the Company will eliminate approximately \$300  
19           million in long-term debt, \$40 million in preferred stock, and \$140 million in  
20           equity.

21  
22       Q.       Is securitization a part of this proceeding, Docket No. D.T.E. 97-120?

23       A.       No. The Department has ruled that securitization will be addressed in a separate  
24           proceeding. However, in parallel with this proceeding, WMECO is working with



1 the Massachusetts Health and Education Facilities Authority ("MHEFA") and the  
2 Massachusetts Industrial Finance Agency ("MIFA") as they develop the  
3 Commonwealth's securitization financing program. Securitization of transition  
4 costs is important to WMECO and WMECO remains committed to submitting a  
5 securitization filing as soon as possible. The Company believes it makes more  
6 sense to make its filing after MHEFA and MIFA have completed their program.  
7 With respect to transition costs and securitization, the Company anticipates that this  
8 filing (D.T.E. 97-120) will address the transition costs available for securitization.  
9 The Company intends to file in the near-term, an application for securitization of  
10 transition costs consistent with Department-approved transition costs and the  
11 MHEFA/MIFA procedures. Following that approval, WMECO can go to the  
12 financial marketplace and issue rate reduction bonds (see Revised Plan, Section V  
13 (b) for more information on securitization).

14  
15 Q. Has the Company proposed to limit the initial portion of its transition costs related  
16 to nuclear plants for which it will seek securitization?

17 A. Yes. In order to expedite achievement of securitization, on May 15, 1998, WMECO  
18 proposed to limit its nuclear transition costs for which it seeks initial securitization  
19 to 90% if that would facilitate its more rapid implementation while the Department  
20 reviewed the Company's nuclear investment in greater detail.

21  
22 **AUCTION OF GENERATING ASSETS**

23 Q. Describe the divestiture components of the Company's Revised Plan.

24 A. On August 5, 1998, WMECO began the sale process by issuing the descriptive

1 memorandum that offers for sale certain of its fossil-fuel and hydroelectric  
2 generating assets. The sale is part of WMECO's restructuring plan filed with the  
3 Department in compliance with the Act.

4  
5 Qualified bidders will receive a memorandum describing the assets and the sale  
6 process and must submit nonbinding bids by October 5. As designed, the winning  
7 bidder will be selected by year-end 1998 with a final agreement expected to be  
8 reached in early 1999. The asset sale process is being managed on behalf of  
9 WMECO by J. P. Morgan & Co. of New York ("J. P. Morgan"). A proposed  
10 schedule has been

11 provided in Exhibit 15 to the Revised Plan.

12  
13 WMECO is offering for sale a total of 290 megawatts (MW) of generation assets.  
14 They include five hydroelectric facilities totaling 17.7 MW of generating capacity;  
15 West Springfield Station, a 209 MW oil/gas facility; and three internal combustion  
16 units totaling 63.5 MW. All are wholly owned by WMECO.

17  
18  
19 Q. Which fossil/hydro facilities are not being auctioned at this?

20 A. WMECO's 19% ownership of the Northfield Mountain Pumped Storage plant;  
21 Turners Falls Hydro plant; and Cabot Station Hydro plant.

22  
23 Q. Why?

24 A. As indicated in its May 15, 1998 submittal, WMECO's non-nuclear assets include

1 its share of the Northfield Mountain Pumped Storage facility ("Northfield") and  
2 WMECO's hydroelectric facilities B Turners Falls and Cabot, which are interrelated  
3 with Northfield, by virtue of a common water impoundment and economic  
4 operation. Northfield and WMECO's related hydroelectric facilities will not be  
5 auctioned with WMECO's other non-nuclear generation assets at this time because  
6 the Company and its advisors in the sale, J. P. Morgan, have become convinced that  
7 a different treatment of Northfield and the related facilities is necessary in order to  
8 maximize the mitigation of transition costs from WMECO's 19 percent share of  
9 Northfield. The Company and J. P. Morgan firmly believe WMECO will be able to  
10 conduct a more robust auction, and thereby attain higher anticipated values for  
11 Northfield and related facilities by retaining these facilities until sometime in 1999,  
12 at which time they will be divested in their entirety in conjunction with the sale of  
13 the 81 percent of Northfield owned by CL&P. CL&P is required to divest its 81  
14 percent ownership share in 1999 by the recently-enacted Connecticut restructuring  
15 law.

16  
17 Q. What does WMECO propose to do with the proceeds from the sale of its assets, if  
18 the sale exceeds the Company's book value?

19 A. Consistent with the Act, all proceeds from the sale of generation assets will "inure  
20 to the benefit of ratepayers" (Section 193(1A)(3)(c)). As discussed in the  
21 December 31, 1997 filing and the Revised Plan, the Company's Transition Charge  
22 is fully reconcilable to reflect actual costs, therefore, any proceeds in excess of  
23 book value will be reflected as an offset to stranded costs in the calculation of the  
24 Transition Charge.

1  
2 **OTHER SUPPORTING WITNESSES**

3 Q. Please list other witnesses that will support the Revised Plan.

4 A. In addition to my testimony, this filing will be supported by the following  
5 witnesses:

- 6 • Michael G. Morris, Chairman, President and Chief Executive Officer, will  
7 discuss the recovery of transition costs for Millstone 1, 2 and 3. Mr. Morris  
8 will also address the decision to close Millstone 1.
- 9 • Gary Long, Vice President - Customer Service and Economic Development,  
10 Public Service Company of New Hampshire, provides testimony on behalf of  
11 WMECO that describes the Company's Standard Offer Services Solicitation,  
12 default service, and other restructuring operational implementation issues.
- 13 • Michael A. Wiater - Director, Financial Planning, will testify about nuclear  
14 performance based ratemaking and support the Millstone 1 and 2 Continued  
15 Unit Operation studies.
- 16 • Richard A. Soderman - Director, Regulatory Planning will testify about the  
17 transition charge calculation, transmission and distribution revenue  
18 requirements, deferrals, and mitigation of stranded costs.
- 19 • Charles J. Roncaioli - Manager, Pricing and Tariffs, will testify about rate  
20 design issues and tariff-related terms and conditions.

21  
22 **CONCLUSION**

23 Q. In sum, where does WMECO stand with regard to restructuring?

24 A. WMECO has experienced an enormously difficult two years, and I view 1998 as

1 another difficult transition year. WMECO must get top dollar in the divestiture of  
2 its generating assets to reduce its transition costs. Furthermore, rapid securitization  
3 of WMECO transition costs is key to WMECO's financial viability. Divestiture,  
4 securitization of transition costs and a successful Standard Offer Service  
5 Solicitation will allow WMECO to provide the benefits of restructuring to its  
6 customers and operate profitably.

7  
8  
9 Q. Does this conclude your testimony?

10 A. Yes, it does.

**JOHN H. FORSGREN**

John H. Forsgren is Executive Vice President and Chief Financial Officer of Northeast Utilities and its operating companies, including Western Massachusetts Electric Company. He is responsible for NU's treasury, Accounting, Budgeting, Financial Planning, and Strategic Planning functions.

Mr. Forsgren earned a Bachelor of Arts degree in economics from Georgetown University in 1967, a Master of Business Administration from Columbia University in 1969 and a Master's degree in International Finance from the University of Geneva (Switzerland) in 1972.

Before joining NU in 1996, Mr. Forsgren held a number of positions in corporate finance. He worked for 11 years at Sperry Corporation, advancing to vice president and treasurer. Mr. Forsgren joined The Walt Disney Company in 1986 as vice president-treasurer and in 1990, was appointed senior vice president and chief financial officer of Euro-Disney. In 1995, Mr. Forsgren joined the Chase Manhattan Bank as managing director - Corporate Finance Advisory Division, serving the media and telecommunications industries.

Mr. Forsgren is chairman of the trustees of the Georgetown University Library and on the Board of Regents of the university. He also is active in a number of environmental and historic-preservation groups in New England and has served as director of several fund-management organizations.

WESTERN MASSACHUSETTS ELECTRIC COMPANY  
EXHIBIT JHF-2  
D.T.E. 97-120

**D.T.E. 97-120 John H. Forsgren Data Requests**

AG-02 AG-001

AG-02 AG-001

AG-02 AG-001

AG-02 AG-002

AG-02 AG-002

AG-02 AG-036

AG-02 AG-038

AG-06 AG-005

AG-08 AG-001

AG-12 AG-001

AG-12 AG-002

AG-12 AG-003

AG-12 AG-004

AG-12 AG-005

AG-12 AG-006

AG-12 A6-007

AG-12 AG-009

AG-12 AG-010

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DTE-02 DTE-018

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DTE-02 DTE-021

DTE-03 DTE-006

DTE-06 DTE-012

DTE-06 DTE-013

ENRON-1 ENRON-029

MAUU-01 ALL-019

WMICG-02 WMICG-001

WMICG-02 WMICG-002

WMICG-02 WMICG-026

WMICG-02 WMICG-045